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TAGS: [ECON](#) [EFIN](#) [HR](#)  
SUBJECT: Economic picture mixed in Western Slavonia

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1.SUMMARY: EconOffs recently visited several small cities in Western Slavonia in an effort to assess economic conditions outside of Croatia's thriving capital of Zagreb. County and city officials reported that, although employment rates are slowly rising, incomes in the region are well below the national average and the lack of job opportunities continues to send young people looking for jobs in Croatia's larger cities. Local governments are taking their own steps to promote small business development, offering subsidized business zones and incubators, as well as favorable loans. Although these measures have begun to bear fruit in some areas, the region as a whole continues to struggle with the legacies of war and economic dislocation. END SUMMARY

12. A recent World Bank study on Croatian standards of living found that Zagreb citizens are 80% wealthier than the national average, with Croatia's poorest counties and highest unemployment rates located in the heavily war-affected and largely agricultural Slavonia region. City and county officials in Pozega, Slatina, Virovitica and Pakrac report that average monthly net incomes in their cities fall between between 2,700 (\$475) and 3,500 kunas (\$625), well below the national average of 4,686 kunas (\$830). However, most residents are reluctant to characterize themselves as poor or register for social welfare benefits, so poverty rates are difficult to assess. Many people supplement their income through unofficial employment and growing their own food, so there are few visible indicators of regional poverty. From conversations with local government officials and town residents, EconOffs learned of the local population's considerable skills in the "art of getting by." One recent journalism graduate, unable to gain permanent employment, holds five part-time correspondent positions just to make ends meet. One entrepreneur in Virovitica retains permanent employment as a teacher at a technical school for income security, while adjusting his honey and wine production in accordance with market prices. Private debt, however, is rapidly rising here as the cost of living increases while wages remain stagnant.

13. Even though Pakrac retains many visible scars of wartime destruction as a result of its position on the frontline in Croatia's 1991-1995 war, all four towns appear to be quite prosperous and are generally well maintained despite unemployment rates hovering between 20-31%, significantly above the national average of 16%. Comparisons between the towns are difficult to draw due to their differing wartime experiences, with Pakrac primarily trying to provide a semblance of its prewar existence, Virovitica attempting to develop as a

regional business and transport hub, Slatina focused on modernizing its agricultural sector and promoting itself as a tourist destination, and Pozega attempting to recover from bankruptcy. The persistent problems of unofficial employment and the "grey economy" remain a major problem for all towns, heavily affecting local tax revenues and making it difficult for local governments to clearly assess true employment.

14. Many major employers in the region have slashed their workforces as a result of war damage, market loss, and privatization. Many retain only a fraction of their pre-war workforces, while some major industries, such as woodworking in Pakrac, which once employed 1,400, were completely destroyed in the war. Local economies remain highly vulnerable to large firm bankruptcies, with Pozega County in particular being heavily affected by the recent bankruptcy of the construction firm Kamen-Ingrad, once a major local employer.

15. Recovery of some damaged industries, like Pakrac's large woodworks, is not feasible, and local governments are struggling to both attract foreign investment and encourage local small business growth. Incentives to attract and retain skilled workers in war-affected and depopulated areas include housing subsidies, government-subsidized sporting and cultural events/facilities, new school buildings, small business loans, and a relatively low cost of living. Substantial aid from foreign donors (including USAID) has allowed Pakrac to open new schools, public markets, re-electrify, and provide other incentives to draw back residents. Roughly half have returned since 1995. Pakrac offers students stipends to attend university in either Zagreb or Osijek, under the condition that the students return to work in the area after they complete their education. Young residents express the frustration that

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although it has now become necessary to earn a college degree to be considered employable, few professional opportunities exist within Croatia, leaving them the options of either emigration or settling into an unrelated and often menial job. Retraining programs for the unemployed have been moderately successful, but a need exists for self-employment training and assistance.

16. Local governments in the region have successfully created business zones and incubators, offering local entrepreneurs office and production space at very low cost, pre-established infrastructure (water, electricity, gas, waste removal) as well as subsidized assistance services (book-keeping, etc.). Pakrac is completing a larger new business incubator after achieving considerable success with its current facility, which currently offers space for 5 start-up businesses. Expanded companies that got their start in the center have occupied plots in the neighboring business zone, with one glass factory now employing 200 workers (from an initial 10 employees). Virovitica has successfully launched the opening of a new business zone as well, with all plots reserved for both production and services already bought by local investors. In addition to the business zones, local governments assist start-ups by offering small business loans as well as subsidizing the interest on private business loans. Special business loan programs also exist for women under the age of 30. Employers also receive financial incentives from the federal government for hiring workers from special groups like war veterans over 45 years of age.

17. All local governments are eager to both privatize public agricultural land and steer production away from

cereal crops to more lucrative vegetable and fruit crops. Slatina's economic strategy has emphasized the privatization of public land, with final tenders on agricultural plots to be offered this fall. Nearly 700 family-owned farms operate in the area, and are shifting their production toward more profitable tobacco crops and the intensive cultivation of vegetables in greenhouses and irrigated plots. However, export of these agricultural commodities is limited by the lack of cold-storage facilities necessary for successful produce distribution. Local governments across the region recognize this problem and assist cooperative efforts to construct and operate these facilities. Some regional farms have also taken advantage of the organic food market, which is an area of possible growth in the agricultural sector. The region's potential for tourism lies in thermal spa development, agro- and rural tourism, as well as drawing campers, hikers, and hunters to the region's large forests and wooded hills. Large-scale recovery of the industrial sector is highly unlikely given the lack of major investment, and the region's economic growth seems dependent on promoting small businesses (light manufacturing, crafts, and services) as well as efficient agricultural practices.